Press Release
SLMI InfraProjects Private Limited
August 29, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37.20	ACUITE BBB- | Stable | Reaffirmed	-
Bank Loan Ratings	125.00	-	ACUITE A3+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	162.20	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB-' (read as ACUITE t riple B minus)** and short-term rating of '**ACUITE A3+' (read as ACUITE A three plus)** on the Rs.162.20 Cr. bank facilities of SLMI InfraProjects Private Limited (SLMI). The outlook is **'Stable'.**

Rationale for reaffirming the rating:
The reaffirmation of rating considers stable growth in revenue despite a marginal decline in operating profit margin, moderate order book position and healthy financial risk profile of SLMI. The revenue increased by 18 percent to Rs.208.09 Cr. in FY2024 compared to FY2023, driven by increase in order book size. Similar growth in revenue is expected in the current year, with an outstanding order book equivalent to 3.18 x times of FY2024 revenue. The operating profit margin in FY2024 has marginally declined due to increased construction expenses and higher proportion of work-in-progress. Going forward, maintaining the revenue growth while improving the profitability and working capital operations will be a key monitorable.

About the Company

SLMI InfraProjects Private Limited (SLMI), formerly known as Sree Lakshmi Metal Industries and Constructions, was established in 1992 as a partnership concern. It was subsequently converted into a private limited company on May 11, 2011, with a change in name to befit its current cognomen. SLMI is engaged in civil construction activities primarily involving buildings, roads, and highways. SLMI is a family-owned business managed by Mr. B. Venkat Reddy (Managing Director), Mr. B. Neelakanta Reddy (Director), and Mr. B. Narasimha Reddy (Director). The registered office of SLMI is located in Secunderabad, Telangana.

Unsupported Rating
Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SLMI to arrive at the rating.

Key Rating Drivers

Strengths

Established t rack record and a healthy order book ensuring revenue v isibilit y for the medium term:
SLMI and its promoters' long-standing presence in the civil construction industry manifests the company's established track record of operations and the extensive experience of its promoters. The promoters have 30 years of individual experience in the infrastructure construction industry. Since inception, SLMI has been executing projects floated through tenders by the government and civic bodies in Telangana. By pursuing numerous orders for its key principals for more than two decades, SLMI is presently registered as a special Class I contractor with the Roads and Bridges (R&B) division in Telangana. The promoter's extensive industry experience, established track record, and timely execution of past projects have enabled SLMI to establish long-standing relationships with its key suppliers and principals. Currently, SLMI has orders worth Rs. 662Cr, which are to be executed in the next 12–24 months. While 100% of the order book value pertaining to the Telangana region, posing a geographical concentration risk on the revenue profile of the company. However, the geographical concentration risk is mitigated to some extent by timely receivables, as the company only undertakes those projects that are specially funded by the central or state government. Acuite believes that extensive experience of the promoters and strong order book of the company will aid SLMI business risk profile over the medium term.

Improvement in operating income despite in profitability:
SLMI has registered revenue of Rs.208.09 Cr. in FY2024 (Prov.), posting a growth rate of ~28 percent on previous year's revenue of Rs.176.84 Cr. Additionally, the company has registered revenue of Rs.66.86 Cr. during the first four months of FY2025, which is marginally higher compared to last year's revenue of Rs.60.9 Cr. for the same period. This improvement in revenue is to presence of decent order book. However, the operating profit margin declined to 9.06 percent in FY2024 (Prov.) from 9.48 percent in FY2023, which had already declined from 11.23 percent in FY2022. This decline in operating profits is due to increasing proportion of work-in-progress and increasing construction expenses. PAT margin has also declined 3.30 percent in FY2024 (Prov.) from 5.13 percent in FY2023 due to increase in depreciation and interest expense. Acuite expects the revenue to improve over the medium term on account of presence of decent order book and profitability margins are expected to remain in the similar range.

Healthy financial risk profile:
SLMI financial risk profile is healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of the company improved to Rs.94.00 Cr. as on March 31, 2024 (Prov.) from Rs.87.14 Cr. as on March 31, 2023 due to accretion of profits to reserves. SLMI's leverage structure remained healthy with low gearing level and total outside liabilities to tangible net worth of 0.38 times and 0.69 times as on March 31, 2024 (Prov.) against 0.45 times and 0.66 times as on March 31, 2023 respectively. Despite a decline in PAT, the capital structure has improved primarily due to reduction in overall debt levels to Rs.35.86 Cr. as on March 31, 2024 (Prov.) compared to Rs.39.07 Cr. as on March 31, 2023. The debt protection metrics have deteriorated marginally yet remained healthy, with a debt service coverage ratio (DSCR) and interest coverage ratio (ICR) of 3.21 times and 3.95 times respectively as on March 31, 2024 (Prov.) compared to 4.23 times and 5.56 times respectively as on March 31, 2023. Additionally, debt to EBITDA also remained healthy at 1.86 times as on March 31, 2024 (Prov.). Acuite believes that financial risk profile of SLMI will remain healthy over the medium term on account of conservative leverage policy followed by the company.

Weaknesses

Intensive nature of working capital operations:
SLMI's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 187 days in FY2024 (prov.) compared to 165 days in FY2023. The increase in GCA days in due to stretch in debtors days, which stood at 57 days in FY2024 (Prov.) compared to 32 days in FY2023. SLMI pays the raw material creditors within 0-30 days. However, certain portion of creditors pertains to expenses payable to sub-contractors,

resulting in creditor days of 131 days in FY2024 (Prov.). The company has around Rs.39.57 Cr. work in progress as on March 31, 2024 (Prov.), resulting in inventory days of 76 days for the period. The presence of huge amounts of work-in progress as on March 31, 2024 (Prov.) resulted in high dependency on fund based working capital limits, which were utilized at an average of 92 percent over the past 12 months ending July, 2024 and with a peak utilization of 100 percent in the month of March 2024. Acuite expects the operation of the company to remain working capital intensive on account of high work-in progress levels.

High geographic and customer concentration risk on the revenue profile:
Currently, SLMI has orders worth Rs.493 Cr. from the Ministry of Road Transport and Highways to be executed in next 12-24 months, which is approximately 74 percent of the total outstanding order book, posing a customer concentration risk on the revenue profile. Additionally, 100% of the order book value pertaining to the Telangana region, which draws significant geographical concentration risk on the revenue profile of the company. However, the customer concentration risk and geographical concentration risk is mitigated to some extent by timely receivables, as the company only undertakes those projects that are specially funded by the central or state government.

Tender-based nature of operations
SLMI executes only tender-based projects from government bodies, with a low reliance on subcontract work. Once the tender is allotted, earnest money deposits (EMD) in the range of 2.5–7 percent are deposited against the bank guarantee. The company raises bills on a monthly basis. The retention money is usually 7.5 percent of the contract value, which is in a few instances released against a bank guarantee. Since the nature of operations is tender-based, the business depends on its ability to bid for contracts successfully. SLMI has a success rate of 75 percent in bidding. Acuité believes that SLMI's revenue and profitability are susceptible to the risks inherent in tender-based operations, which limit pricing flexibility in an intensely competitive industry.

Rating Sensitivities

Positive:

- Timely execution of its order book leading to improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Leverage and Solvency position of the company.

Negative:

- Any significant delays in receivables from customers leading to high utilization on working capital limits.
- Any further deterioration in working capital cycle and liquidity profile of the company.

Liquidity position: Adequate

SLMI's liquidity position is adequate as reflected through the sufficient net cash accruals (NCA's) against the debt repayment obligations. The company has registered NCA's of Rs.12.01 Cr. as on March 31, 2024 (Prov.) which were sufficient to pay the nominal debt obligations of Rs.0.38 Cr. for the same period. The gross current assets days stood at lengthened to 187 days in FY2024 (Prov.) from 165 days in FY2023 due to stretch in debtor days and inventory days. Consequently, reliance on fund-based working capital limits has increased, with an average utilization of 92 percent in the past 12 months ending July, 2024. Going forward, SLMI is expected to register NCA's in the range of Rs.16-22 Cr, which would comfortably meet the expected debt repayment obligations range of Rs.3.80-4.20 Cr. over the medium term.

Outlook: Stable

The outlook revision to 'Stable' is primarily driven by the consistent improvement in operating income and also presence of healthy order book providing medium term revenue visibility. The outlook may be revised to 'Negative' in case of company's inability to complete the orders on time resulting in low revenue, any further deterioration in the working capital operation leading to deterioration of liquidity profile. Conversely, the outlook may be revised to 'Positive' in case of more than expected improvement in revenue, in case of efficient management working capital, improvement in operating margins leading to improvement in financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	208.09	176.84
PAT	Rs. Cr.	6.86	9.08
PAT Margin	(%)	3.30	5.13
Total Debt/Tangible Net Worth	Times	0.38	0.45
PBDIT/Interest	Times	3.95	5.56

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.htm
• Infrastructure Sector: https://www.acuite.in/view-rating-criteria-51.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Jun 2023	Cash Credit	Long Term	18.00	ACUITE BBB- | Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	4.20	ACUITE BBB- | Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	74.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	51.00	ACUITE A3+ (Assigned)
08 May 2023	Cash Credit	Long Term	18.00	ACUITE BBB- | Stable (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	74.00	ACUITE A3+ (Reaffirmed)
23 Feb 2022	Bank Guarantee (BLR)	Short Term	62.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Proposed Bank Guarantee	Short Term	10.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Cash Credit	Long Term	18.00	ACUITE BBB- | Negative (Downgraded from ACUITE BBB | Stable)
	Proposed Cash Credit	Long Term	2.00	ACUITE BBB- | Negative (Downgraded from ACUITE BBB | Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	125.00	ACUITE A3+ | Reaffirmed
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	18.00	ACUITE BBB- | Stable | Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	21 Sep 2027	Simple	15.00	ACUITE BBB- | Stable | Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	28 Dec 2024	Simple	4.20	ACUITE BBB- | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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